

LEADING THE NEWS



No silver bullet to stop excessive debt

By Rep. Allyson Schwartz (D-Pa.)

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For virtually every financial transaction American consumers make, we are given a choice: paper or plastic. Whether we are purchasing groceries, paying medical bills, buying a new household appliance, or filing taxes, we can choose between paying with cash or putting it on a credit card.

At a rapidly increased rate, Americans are choosing plastic. Consumers like the convenience and relative ease of credit card transactions. This trend is made clear by the fact that in 2005, Americans charged more than \$1.8 trillion — an increase of over 2,500 percent since 1980.

Access to consumer credit is an important part of our economy. When credit is used responsibly it enables families to fit larger, or emergency, expenses into their budgets by allowing them to pay over time. It also is a convenient way for them to make everyday purchases.

But there is a downside to the availability of such easy credit. At the end of 2005, Americans held more than \$830 billion in household debt — an increase of \$771 billion over 25 years.

It is impossible to place the blame for the national explosion in household debt on any one individual, industry, or cultural trend. And there is no silver bullet that can protect American families from accumulating excessive levels of debt.

What we do know is that for the sake of our national economy and for individual family budgets, personal responsibility must be coupled with increased corporate responsibility. Markets work best — and most fairly — when all parties have the information and tools they need to make wise, informed spending and borrowing decisions.

But as credit cards have become easier to obtain, families are finding it more difficult to understand fully the terms of their credit card contracts and the consequences of their financial choices.

In September 2006 the Government Accountability Office (GAO) issued a report entitled “Credit Cards: Increased Complexity in Rates and Fees Heightens the Need for More Effective Disclosures to Consumers.” This report underscores how the rapid evolution of new fees and interest rate structures have increased confusion and uncertainty among consumers.

For example, a borrower may be charged different interest rates for different types of transactions while using the same card. And consumers can face penalty fees and punitive interest rates if they exceed their credit limit or pay their bills late — even by the narrowest margins.

Even more troubling, borrowers often face “universal default” policies, which can lead to significant rate increases for cardholders when they default on other loans. And many lenders have claimed the right to increase interest rates at any time, for any reason. Additionally, many businesses and consumers are hit with a charge that doesn’t even appear on their statement: interchange fees that are charged to businesses that process credit cards, which in turn either eat this cost or pass it on to the consumer.

Many middle-class families have told me of their experiences of being caught off guard and feeling cheated when hit with these unexpected rate increases and fees. The former chairman of the National Association of Consumer Advocates shared with me how the hardworking Pennsylvanians he represents struggle to recover from credit card debts that are due in part to having multiple penalties repeatedly assessed on their accounts.

Congress has a responsibility to address these issues, and I am pleased that the House Financial Services

Committee has begun hearings on these topics. Since coming to Congress in 2005, I have had an ongoing dialogue with the nation's largest credit card issuers. In June 2006, I organized a meeting between industry leaders and members of the New Democrat Coalition and the Blue Dog Coalition to discuss ways in which the industry can better protect, educate, and empower consumers.

Congressional attention to this issue is bringing results. Industry leaders are beginning to change their practices. Citigroup recently ended its "universal default" and "any time for any reason" rate-setting practices. Congressional leaders and consumer advocates alike have applauded Citigroup's decision, and I share their hope that this is the start of an industry-wide trend to address more fully the lack of transparency in card fees.

Our nation's economy depends on the financial strength of both businesses and everyday families, and as such Congress has a responsibility to support policies that better encourage savings, responsible borrowing, and greater financial literacy among all Americans. It is my firm belief that by working together, Congress, industry, and consumer groups can provide consumers with the knowledge and tools they need to use credit, borrowing, and savings responsibly to build more financially secure lives.

Schwartz is a member of the House Budget Committee.

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